

Message Text

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ACTION EUR-12

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FM AMCONSUL ISTANBUL
TO SECSTATE WASHDC 0000
INFO AMEMBASSY ANKARA
AMCONSUL IZMIR
AMCONSUL ADANA
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY VIENNA

C O N F I D E N T I A L ISTANBUL 2535

USEEC

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E.O. 11652: GDS
TAGS: EFIN, TU
SUBJ: STATUS OF CLD RESCHEDULING NEGOTIATIONS

REF: A) ANKARA 5848; B) ANKARA 5777; C) ANKARA 5204

SUMMARY: IN INITIAL CALL ON RICHARD GEORGE, ISTANBUL-BASED
CITICORP REPRESENTATIVE, CONOFF REVIEWED THE STATUS OF
CONVERTIBLE LIRA DEPOSIT (CLD) RESCHEDULING NEGOTIATIONS,
CITICORP'S CONSTRUCTIVE REMITTANCE SCHEME, AND CITICORP
INVOLVEMENT WITH MOBIL/ATAS REFINERY PROBLEM. GEORGE
COMMENTED THAT CLD RESCHEDULING TALKS WERE PROGRESSING,
ALBEIT MUCH MORE SLOWLY THAN THE TURKISH PRESS WOULD INDICATE.
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HE ALSO EXPLORED "WORST-CASE" SCENARIO THAT MIGHT POSSIBLY
UNFOLD ONCE AGREEMENT IN PRINCIPLE IS REACHED BETWEEN GOT
AND GROUP OF EIGHT COORDINATING BANKS. ON CONSTRUCTIVE
REMITTANCE SCHEME, GEORGE CONFIRMED PRESS REPORT THAT DIFFERENCES
OF VIEW STILL EXISTED BETWEEN GOT AND CITICORP. END SUMMARY.

1. IN INITIAL CALL, CONOFF EXPLORED VARIOUS ISSUES WITH RICHARD

GEORGE, ISTANBUL DIRECTOR FOR CITICORP, WHO HAD JUST RETURNED FROM TWO WEEKS' LEAVE. CONOFF NOTED THAT WHILE WAITING, HE HAD HAD TIME TO READ THREE ARTICLES IN AUGUST 14 TERCUMAN (JUSTICE PARTY ORGAN) ON CITICORP, DEALING WITH CLD NEGOTIATIONS, THE CONSTRUCTIVE REMITTANCE SCHEME, AND CITICORP'S INTEREST IN THE MOBIL/ATAS CASE. THE DISCUSSION THAT FOLLOWED WAS BASED ON THOSE ARTICLES:

2. CLD RENEGOTIATIONSC GEORGE OBSERVED THAT THE NEWSPAPER ARTICLE WAS CORRECT IN THAT THE GROUP OF EIGHT HAD BEEN INVITED BACK TO TURKEY FOR FURTHER DISCUSSION OF PRINCIPLES OF AGREEMENT ON CLD RESCHEDULING. HOWEVER, THE NEXT ROUND WOULD PROBABLY NOT PRODUCE A DEFINITIVE AGREEMENT, IN CONTRAST TO THE OPTIMISTIC LINE BEING TAKEN BY THE TURKISH PRESS. PLUS, EVEN WHEN THE GROUP OF EIGHT DOES REACH AN AGREEMENT IN PRINCIPLE WITH THE GOT, THAT AGREEMENT MUST THEN BE "SOLD" TO THE REMAINING 213 CLD HOLDERS. GEORGE DESCRIBED THE DIVISION OF RESPONSIBILITIES WITHIN THE GROUP OF EIGHT: MORGAN GUARANTY IS HANDLING THE PAPERWORK, CHASE MANHATTAN WILL DO THE CONTACTING OF THE VARIOUS CLD-HOLDING BANKS, AND CITICORP WILL HANDLE THE TALLY SHEET IN CONJUNCTION WITH THE GOT ON WHO HAS AGREED TO WHAT AND WHEN. WHEN ASKED WHAT ROLE THE LUHN LOEB/LAZARD FRERES TEAM WOULD PLAY, GEORGE RESPONDED THAT THEY DO NOT KNOW YET THEMSELVES.

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3. GEORGE THEN EXPLAINED WHAT MIGHT HAPPEN IF ONE OF THE CLD-HOLDING BANKS DECIDED NOT TO PARTICIPATE. IT COULD, OF COURSE, SEEK LEGAL REDRESS WITHIN ITS OWN LEGAL SYSTEM. HOWEVER, WHOM WOULD IT SUE? IF IT SUED THE TURKISH COMMERCIAL BANK WHERE THE LIRAS HAD BEEN DEPOSITED, IT WOULD ALMOST CERTAINLY LOSE, AS THE COMMERCIAL BANKS GENERALLY HAVE NOT SHOWN BAD FAITH, AND HAVE PAID TO THE TURKISH CENTRAL BANK THE NECESSARY TURKISH LIRA EQUIVALENTS. IF SOMEONW SUED THE TURKISH CENTRAL BANK, IT MIGHT CONCEIVABLY WIN BUT COME UP EMPTY-HANDED, AS THE TURKISH CENTRAL BANK DOES NOT HAVE ANY OVERSEAS ASSETS WHICH MIGHT BE ATTACHED (RECENT CENTRAL BANK AUDIT DOES INDEED YHOW THE PAUCITY OF FOREIGN EXCHANGE ASSETS). GIVEN THAT FACT, A BANK MIGHT FOREGO LAWSUIT AS LEGAL COSTS WOULD FAR OUTWEIGH ANY POSSIBLE GAIN. WHEN ASKED IF CITICORP MIGHT USE THIS AS BARGAINING TACTIC WITH RELUCTANT RESCHEDULER, GEORGE QUICKLY RESPONDED NEGATIVELY. IT CITICORP DID SO, AND ANOTHER DEFAULT/RESCHEDULING EXERCISE BECAME NECESSARY IN THE FUTURE, CITICORP MIGHT ITSELF BE SUED FOR DAMAGES NEXT TIME AROUND. ALL COORDINATING BANKS WERE WELL AWARE OF THIS. GEORGE ALSO CONFIRMED CITICORP IS NOW "AGENT" OR LEG-MAN FOR GROUP OF EIGHT.

4. GEORGE SAID THAT, UNFORTUNATELY, THERE IS A DIRECT PARALLEL BETWEEN CLD RESCHEDULING AND THE NEW YORK CITY EXPERIENCE WITH "BIG MAD" BONDS. IN THAT CASE, WHEN NEW YORK CITY DECLARED A MORATORIUM ON PAYING BOND INTEREST, EVERYONE AGREED TO GO ALONG, WITH THE EXCEPTION OF RELATIVELY TINY FLUSHING NATIONAL BANK, WHICH SUED AND EVENTUALLY WON, THEREBY UPSETTING THE ENTIRE MORATORIUM SCHEME. GEORGE SAID THAT CASE WAS VERY FAMILIAR TO EVERYONE INVOLVED IN CLD TALKS.

5. ON THE CONSTRUCTIVE REMITTANCE SCHEME, GEORGE SAID THAT TERCUMAN WAS RIGHT AGAIN IN SAYING THAT THERE WAS STILL A DIFFERENCE IN VIEWPOINT BETWEEN CITICORP AND THE CONFIDENTIAL

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MINISTRY OF FINANCE. HOWEVER, AGRUMENT WENT BEYOND THE INTEREST RATE. THE MINISTRY ALSO WANTED SOME IMPOSSIBLE CONDITIONS ATTACHED TO THE SCHEME. FOR INSTANCE, ACCORDING TO GEORGE, THE MINISTRY WANTED TO KNOW WHICH LOANS, AS THE GOVERNMENT WANTED TO BE CERTAIN THAT THE IMPORTS SHIPPED TO TURKEY BY THOSE COMPANIES HAD BEEN OF PRIMARY USE IN TURKEY'S DEVELOPMENT. ALSO, THE GOT WANTED ASSURANCE THAT THE COMPANIES WOULD CONTINUE TO SHIP, ON CREDIT, IN THE FUTURE--CITICORP FLATLY REJECTED BOTH CONDITIONS AND TALKS ON THE SCHEME ARE SUSPENDED.

6. AS FOR MOBIL, GEORGE NOTED THAT MOBIL IS ONE OF CITICORP'S BEST AND MOST PROFITABLE CUSTOMERS AROUND THE WORLD, SO IT IS NATURALLY IN CITICORP'S INTEREST TO FOLLOW ANY DEVELOPMENT ANYWHERE WHICH IMPINGE ON MOBIL'S FINANCES. HOWEVER, TERCUMAN'S ARTICLE, WHICH IMPLIED THAT CITICORP WAS HOLDING UP THE CONSTRUCTIVE REMITANCE SCHEME BECAUSE OF THE GOT'S TREATMENT OF MOBIL, WAS FALSE.

7. GEORGE ALSO COMMENTED ABOUT THE RECENT CENTRAL BANK DIRECTOR/MINISTER OF FINANCE SQUABBLE, SAYING THAT SADIKLAR IS SO MISTRUSTED BY THE BANKING COMMUNITY THAT A VACANCY MIGHT BE BETTER THAN HIS CONTINUED LEADERSHIP.

8. COMMENT: ECEVIT'S SPEECH REPORTED REF (A) REPEATS THEME OFTEN STATED IN TURKISH PRESS: DEBT RESCHEDULING IS VIRTUALLY COMPLETED AND NEW MONEY IS ABOUT TO BE EXTENDED BY THE BANKS. GEORGE POINTED OUT THAT THIS IS FAR FROM THE CASE, AND GOT IS NOW REALIZING THAT IT MISSED THE BOAT BY NOT WRAPPING UP THESE NEGOTIATIONS SOONER. AS MATTERS NOW STAND, THE CLD DISCUSSIONS COULD DRAG ON FOR SEVERAL MORE MONTHS AT A MINIMUM, AND ANY NEW MONEY THAT DOES GET INCLUDED IN THE RESCHEDULING WOULD WELL BE TOO LITTLE, TOO CONFIDENTIAL

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LATE.
HOUGHTON

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Message Attributes

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